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Federal Communications Commission  
Office of the Secretary

October 16, 1992

Ms. Donna Searcy, Secretary  
Federal Communications Commission  
1919 M Street, N.W. - Room 222  
Washington, DC 20554

Subject: Open Network Architecture Tariffs of Bell Operating  
Companies; CC Docket No. 92-91

Dear Ms. Searcy:

Enclosed please find the original and seven copies of the General Services Administration's Comments on Direct Cases for filing in the above-referenced docket. Copies of this pleading have been served on all interested parties.

Sincerely,

*Michael J. Ettner*

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Senior Assistant General Counsel  
Personal Property Division

Enclosures

cc: Downtown Copy Center  
Taruff Division  
Interested Parties

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BEFORE THE  
FEDERAL COMMUNICATIONS COMMISSION  
WASHINGTON, D.C. 20554

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Federal Communications Commission  
Office of the Secretary

In the Matter of )  
 )  
Open Network Architecture Tariffs )  
of Bell Operating Companies )

CC Docket No. 92-91

THE GENERAL SERVICES ADMINISTRATION'S COMMENTS ON DIRECT CASES

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CC Docket No. 92-91

THE GENERAL SERVICES ADMINISTRATION'S COMMENTS ON DIRECT CASES

The General Services Administration ("GSA"), on behalf of the Federal Executive Agencies, hereby submits its Comments in response to the Commission's Order Designating Issues for Investigation ("Designation Order"), DA 92-483, released April 16, 1992 in CC Docket No. 92-91. This order solicited comments on the direct cases filed by the Bell Operating Companies ("BOCs")<sup>1</sup> in this proceeding.

I. INTRODUCTION

On November 1, 1991 the BOCs filed Open Network Architecture

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<sup>1</sup>The Bell Companies are the operating companies of Ameritech Operating Companies ("Ameritech"), Bell Atlantic Telephone Companies ("Bell Atlantic"), BellSouth Telephone Companies ("BellSouth"), New York Telephone Company and New England Telephone and Telegraph Company ("NYNEX"), Pacific Bell and Nevada Bell ("Pacific"), Southwestern Bell Telephone Company ("Southwestern"), and U S West Communications, Inc. ("U S West").

("ONA") tariffs pursuant to the Commission's Part 69/ONA Order.<sup>2</sup> GSA and a number of other parties filed Petitions to Suspend and Investigate these BOC tariffs on November 26, 1991. GSA called for the Commission to investigate the extreme variations in Basic Service Element ("BSE") rates and direct cost-to-price ratios filed by the BOCs.<sup>3</sup>

The Common Carrier Bureau ("Bureau") subsequently suspended the BOC ONA tariffs for one day, imposed accounting orders and initiated this investigation. The Bureau stated in its Designation Order that "[t]he issues designated are primarily designed to permit examination of the wide disparity in rate levels of BSEs among the BOCs to determine if the various rate levels are reasonable."<sup>4</sup>

To this end, the Bureau required the BOCs to file direct cases on May 18, 1992, specifically addressing a number of issues related to the Switching Cost Information System ("SCIS") and Switching Cost Model ("SCM") used by the BOCs in developing their rates.<sup>5</sup> The Bureau sought to determine if the use of certain variables in

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<sup>2</sup>Amendments of Part 69 of the Commission's Rules Relating to the Creation of Access Charge Subelements for Open Network Architecture, CC Docket No. 89-79, Report and Order on Reconsideration & Supplemental Notice of Proposed Rulemaking, FCC 91-186, released July 11, 1991 ("Part 69/ONA Order").

<sup>3</sup>ONA Access Charge Tariff Filings, Petition to Suspend and Investigate of the General Services Administration, November 26, 1991, ("GSA Petition"), pp. 4-9.

<sup>4</sup>Designation Order, para. 1.

<sup>5</sup>Designation Order, para. 3.

these models constituted unreasonable methods of rate development, and whether the resulting rates are just and reasonable.

Unfortunately, the direct cases filed by the BOCs have not fully explained or supported the wide disparity in rate levels for certain BSEs. On the one hand, GSA's review of the BOC direct cases indicates that these wide disparities cannot be attributed to any of the factors questioned by the Bureau. On the other hand, GSA believes that the Commission cannot approve vastly different BOC rates for what appear to be the same services. The attachment to these Comments lists seven BSEs for which the highest proposed rate is at least 20 times that of the lowest proposed rate. Such differences indicate either that some BOC rates are unreasonable or that the services being rated are significantly different, despite their similar appearance.

In these Comments, GSA will first examine the BOC methods of rate development and then address the wide disparity in BSE rates.

## II. THE VARIABLES USED BY THE BOCs IN RATE DEVELOPMENT APPEAR REASONABLE.

The Commission introduced a flexible cost based approach to the pricing of new services in the Part 69/ONA Order.<sup>6</sup> Under these guidelines, local exchange carriers ("LECs") are allowed to develop their own costing methodologies, but they must use the same costing methodology for all related services.

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<sup>6</sup>Part 69/ONA Order, para. 38-48.

GSA's review of the BOC direct cases indicates that the variables used by the BOCs in rate development appear reasonable. The following is a listing of the specific questions asked by the Bureau, and GSA's comment on the answers provided to each by the BOCs:

1. Is the development of unit investment for BSEs on the basis of the (short run) marginal investment option of SCIS and SCM a reasonable method that is consistent with the Commission's ONA requirements and policies?

BellSouth and Southwestern used the long-run incremental ("LRIC") cost option, rather than the average cost option, in developing their direct costs. As they correctly argue, LRIC represents the appropriate basis for price floors.<sup>7</sup> Their methods are, therefore, consistent with the Commission's policies as long as these costs are loaded with appropriate overheads. On the other hand, given the Commission's flexible cost based pricing standard, the use of average costs by the other BOCs is also reasonable.

2. Have carriers selected model offices that are representative of offices that will be used to provide BSEs?

Although the BOCs varied somewhat in their procedures for developing model offices, there is no

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<sup>7</sup>Direct Case of BellSouth, pp. 11-13; Southwestern, pp. 1-3.

indication that the selection process in any way led to biased results.

3. Is use of a cost of money that exceeds 11.25 percent reasonable?

Most of the BOCs used a forward looking cost of money higher than 11.25 percent in the development of their costs. As they pointed out, however, the specific cost of money used in their models had little effect on their final, loaded costs.<sup>8</sup> The BOC approach is not unreasonable given the total task at hand.

4. Should IESS and/or IAESS switch costs be included in the development of BSE rates?

The inclusion of IESS and/or IAESS switches in each BOC's methodology varies according to their plans for switch replacement. As some BOCs demonstrated,<sup>9</sup> the arbitrary exclusion of these switches from their analysis would cause some BSE rates to go up, and others to go down. The approach of each BOC appears to be reasonable given its particular circumstances.

5. Are the BellSouth and U S West overhead loadings excessive?

Although the ratio of overhead loadings to direct costs is higher for BellSouth and U S West, their total

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<sup>8</sup>See, e.g., Direct Case of Ameritech, pp. 3-5; Pacific, pp. 3-4.

<sup>9</sup>See, e.g., Direct Case of Ameritech, pp. 5-6; Bell Atlantic, pp. 5-7.

rates do not appear to be excessive relative to the other BOCs. Since all carriers employed what is essentially a fully loaded methodology in the development of their BSE costs, it appears that the differences in loading rates merely reflect differences in the development of direct costs, such as BellSouth's use of LRIC, and not strategic pricing decisions.

6. Have carriers adequately justified their use of nonuniform overhead loadings in pricing BSEs?

Each BOC provided credible explanations for what appeared to be nonuniform overhead loadings. Since the BOCs each used uniform procedures, the differences were due almost entirely to rounding conventions.

7. Are differences between BSE rates and unit costs justified?

Each BOC was able to demonstrate that its proposed rates were in fact equivalent to its unit costs. Apparent differences were due largely to rounding conventions.

In summary, no issue raised by the Bureau gives cause for concern that the methods of rate development of any BOC is unreasonable.



### III. THE WIDE DISPARITY IN RATE LEVELS OF CERTAIN BSEs IS NOT REASONABLE.

Although, as discussed above, the variables used by the BOCs in rate development appear reasonable, many of the filed BSE rates do not. The attachment to these Comments provides a listing of seven BSEs for which various BOCs have proposed widely divergent rates.

Differences in technology and costing methods will result in some differences in price, of course, but the extreme variations in BOC prices for these BSEs would seem to indicate more fundamental problems. The BOCs must adequately justify such widely disparate rates before they can be approved by the Commission.

In its Reply to Petitions to Reject and Suspend, Bell Atlantic gave clear and credible explanations for the differences in rates for the Message Desk and Make Busy Key BSEs.<sup>10</sup> GSA has not yet seen such explanations for the differences in proposed rates for the seven BSEs on the attachment to these Comments.

The Commission declined to specify a rate structure for each BSE, requiring only that BSE rate structures reasonably reflect the nature of underlying costs.<sup>11</sup> The Commission did state, however, that "[i]f our rule does not produce substantial uniformity, and if any lack of uniformity creates difficulties for customers, or in

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<sup>10</sup>Bell Atlantic Reply to Petitions to Reject and Suspend, Appendix A, Item 6.

<sup>11</sup>Part 69/ONA Order, para. 50.

the tariff review process, we can revisit this issue at a later date."<sup>12</sup>

If the replies to these comments do not resolve this issue, the Commission should consider prescribing rates for those carriers whose proposals are most out of line. Indeed, given the importance of BSE rates to the development of effective competition in the provision of enhanced services, the Commission should consider procedures which would highlight such conditions in the future. An annual report, for example, of all BSE rates offered by each BOC in a uniform format might prove useful to users, regulators and LECs alike.

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<sup>12</sup>Id.


#### IV. CONCLUSION

As the agency vested with the responsibility for acquiring telecommunications services for use of the Federal Executive Agencies, GSA fully supports the Commission's efforts to bring full and open competition to the enhanced services market. GSA believes that access tariffs implementing Open Network Architecture represent an important step in furthering this goal. Since the variables used by the BOCs in rate development appear reasonable, the Commission should approve the tariffs filed if the exceptions noted in these comments can be resolved.

Respectfully submitted,

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October 16, 1992

DISPARITY IN BSE RATE LEVELS

<u>BSE</u>	<u>BOC</u>	<u>ANNUAL RATE</u>	<u>HIGH/LOW MULTIPLE</u>
Alternate Routing	NYTR	\$ 3.24	20
	SWTR	66.00	
Calling Billing Number Delivery	SWTR	\$ .000094	26
	BSTR	.000190	
	USTR	.000241	
	NETC	.000253	
	BATR	.000400	
	PTCA	.000410	
	NYTR	.001584	
	AMTR	.002412	
Multiline Hunt Group	SWTR	\$ .24	90
	BATR	1.39	
	NETC	1.75	
	PTCA	2.40	
	NYTR	2.65	
	USTR	4.32	
	BSTR	5.76	
	AMTR	21.60	
Multiline Hunt Group - Central Office Announcement	NYTR	\$ 45.25	24
	USTR	173.64	
	AMTR	308.40	
	SWTR	492.96	
	PTCA	1104.00	
Multiline Hunt Group - Uniform Call Distribution with Queing	PTCA	\$ 11.40	142
	NYTR	11.65	
	SWTR	75.84	
	USTR	105.36	
	AMTR	1650.00	
Multiline Hunt Group - Uniform Call Distribution Line Hunting	SWTR	\$ .02	1650
	NETC	2.00	
	NYTR	4.62	
	BATR	16.02	
	BSTR	18.72	
	USTR	29.40	
	AMTR	32.40	
	PTCA	33.00	
Three Way Call Transfer	PTCA	\$ .60	152
	USTR	2.52	
	BSTR	31.44	
	AMTR	31.80	
	BATR	91.36	

CERTIFICATE OF SERVICE

I, MICHAEL J. ETTNER, do hereby certify that copies of the foregoing "Comments on Direct Cases" of the General Services Administration were served this 16th day of October, 1992, by postage paid or hand delivery (indicated below by asterisks) to the following parties:

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